



**Business Visitations
Advanced Manufacturing
&
Oil & Gas Sector**

Conclusions

Twenty-seven business visitations were conducted during the months of May and June to Southeast Alberta businesses in the Advanced Manufacturing and Oil and Gas Sectors. The primary goal of the business visitations was to assist existing companies expand or diversify their businesses. A secondary goal was to identify companies with an interest in locating to the region or seeking to partner with an existing business. Specific questions aimed at gathering information pertaining to these goals were asked.

Context

During the time that the business visitations were conducted, the outlook for the oil and gas sector and the Alberta economy was not positive. In fact, as of June 19, 2009, the Province of Alberta's year to date (January to June) economic indicators were as follows when compared to the same period in the previous year:

	2008	2009 YTD
Labour Market - Employment % Change	2.8	-0.3
Consumer Price Index	3.1	0.6
Non-Residential Construction Cost Index (quarterly)	13.2	-1.0
Farm Product Price Index	11.1	-7.1
Housing Starts	-39.7	-64.5
Retail Sales	-0.1	-11.0
New Motor Vehicle Sales	-7.3	-28.5
Public and Private Investment (Average of Calgary and Edmonton)	3.6	-14.0
Mining and Oil and Gas (2009 based on initial investment intentions, 2008 preliminary actuals)	-1.4	-28.2
Rigs Drilling	-2.1	-43.6
Goods Exports (customs based)	33.2	-28.7
Goods Exports Energy	40.9	-33.2
Manufacturing Shipments	6.9	-16.3
Wholesale Trade	10.9	-4.7
Building Permits (residential and non-residential)	-16.5	-48.6

Source: Alberta Finance and Enterprise- June 19, 2009

Businesses Visited

A total of twenty-seven business representatives were successfully interviewed, a few providing information on all companies affiliated with them.

- Benchmark Geomatics - Surveying
- Brovac Mobile Vac - Vacuum Truck
- CanCarb - Advanced Manufacturing
- Cougar Combos - Steam Cleaning
- Criterion Catalysts & Technologies - Advanced Manufacturing
- D.J.'S Tank Truck Service - Trucking Services
- Diamond Energy Services - Coiled Tubing
- Dynamic Industrial Solutions - Equipment/Testing
- Exterran - Compression, Mechanics
- Form Tech Machining and Fabrication - Machining
- Guardian Chemicals - Chemical and Injection
- Hranco Industries - Fabrication
- IXL Industries Ltd. - Advanced Manufacturing
- Integra Safety - Safety Training
- Iron Horse Energy Services Inc. - Fracturing
- Law Inspection Services - X-Ray
- Lifeline Safety Services - Safety Services
- Maverick Business Solutions:
 - Southern Plains Energy - Well Testing
 - Entegra - Instrumentation and Electrical
 - Global Flow - Fabrication
- Moduline Industries Inc. - Advanced Manufacturing
- Polycore Tubular Linings - Pipeline/Advanced Manufacturing
- Sonic Oilfield - Trucking Services/Swabbing
- Spider Electric Ltd. - Electrical Instrumentation
- T.P. Oilfield Services - Vacuum Truck
- TransCanada Pipelines - Oil and Gas Distributor
- Trip Energy Services Inc. - Maintenance Construction
- Tru-Co Structures Inc. - Advanced Manufacturing
- Western Canada Welding Products Ltd. - Welding

Business Descriptions

1. Businesses visited have been operating anywhere from one year (start-up) to over 35 years. Most businesses are located in the Southeast Alberta region for two reasons: location and lifestyle. Those businesses that were attracted to the location either took advantage of the natural resources (natural gas, clay, etc.) or their representatives/founders could service a radius from their Southeast Alberta location (Calgary and south western Saskatchewan are within close proximity). Those that were attracted to the region due to lifestyle commented on the advantages provided by the smaller communities which are also surrounded by numerous recreational opportunities and within close proximity to amenities not available in the region. People felt that they had the best of both worlds in the region (small and comfortable yet close enough to anything else that they would desire). Another factor in relation to lifestyle mentioned was family. Most respondents mentioned that their families were in the region.
2. The twenty-seven companies visited were diverse in terms of the services offered within the oil and gas industry value chain as well as the size of the companies. In fact, annual payroll ranged from \$200,000 to \$5 million.

3. Most companies' sole location was in the region. A few companies had locations elsewhere, often in Saskatchewan.
4. Greatest achievements cited include: expansion (physical or in terms of human resources), growth, expansion in other markets, focus on safety and customer service, and product innovation and diversification.
5. Critical success factors are linked to excellence in/quality of service, employee expertise, safety focus/record, and responsiveness to customers. A few interviewees mentioned product/process innovation to meet client needs.
6. Most companies felt that stability was in order leading to the end of 2010. That is, most interviewees were hoping to stop the trend of either declining revenues or profits and were looking forward to achieving some stability. A couple of the larger companies were looking forward to increasing their revenues due to opportunities they may be able to seize (diversification or introduction of new product/service).
7. Challenges faced in achieving stability include:
 - the state of the economy (provincial, national and global)
 - the state of the oil and gas industry curtailing work opportunities due to reduced demand
 - restriction in the flow of cash/capital
 - competitiveness in bidding reducing profit margins
 - increase in costs of items such as natural gas
 - suppliers either practicing or demanding just in time
 - downsizing that results in the loss of good employees
8. Many companies did not see opportunity on the horizon, however, those that did involve diversification, either in offerings or in serving additional or different markets. A few companies also found that the current state of the oil and gas industry (and the subsequent slow down) has resulted in the sifting of employees (only the cream of the crop are kept through layoffs) and the ability to differentiate themselves from new start-ups that were merely taking advantage of the boom.
9. Companies providing safety related products/services are unique. Challenges are associated with companies streamlining and therefore reducing investment in safety. At the same time, the slow down is seen as an opportunity to get some safety training conducted as safety regulations are perceived to be constantly increasing.

Products/Services

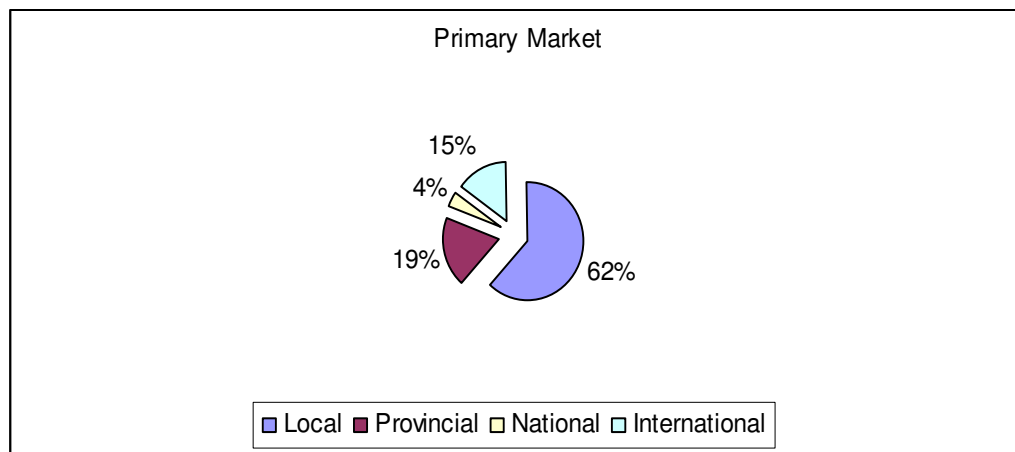
10. Most small companies have not introduced new products or services in the last few years. These companies are essentially providing a service and "it is what it is". The larger companies are more apt to have introduced something new (process or product). The trend is similar in terms of plans for introduction of new products and services in the next few years. That is, companies such as Criterion Catalyst, Exterran, I-XI, Guardian Chemicals, CanCarb, Maverick Business Solutions are more apt to innovate and introduce new products/services.
11. The larger companies are the same companies that would spend effort (financial or human resource) towards research and development. Some of these companies have formal research and development functions that have a dedicated budget. Some of the

companies receive the benefit from research and development expertise available at a central (head office) location.

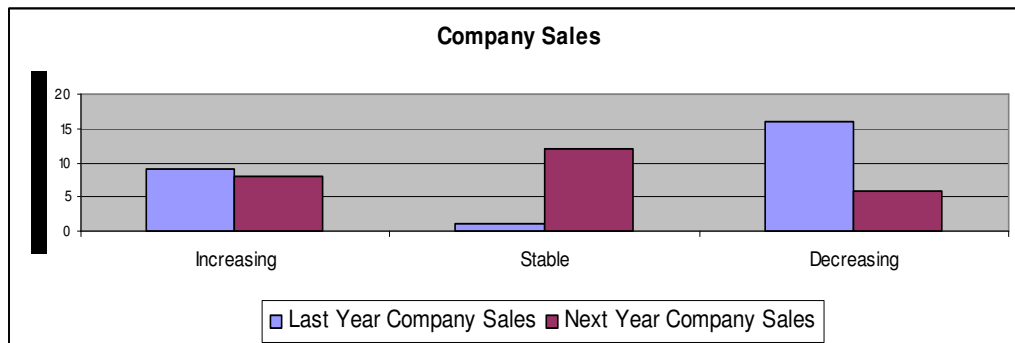
12. Smaller companies that innovate (i.e. find a better way of doing things) do so as a result of being out in the field, understanding the industry and listening to customer needs, rather than as a result of a formal research and development function.
13. Most companies' work (service) is in the region. A few also provide service in the rest of Alberta and portions of Saskatchewan. A few companies' such as Exterran, Criterion Catalyst, and CanCarb, export internationally.
14. All companies are sourcing the majority of their major inputs within the region. Those inputs that are not sourced within the region are the items that are not available (and might not be feasible to have available) in the region or items that are most cost effectively available elsewhere.
15. The "wish list" for suppliers or sub-trades that could be located in the region includes blower/vacuum truck servicing, tubing mill, wire/cable supplier, and manufactured home supplier (windows, doors, kitchen cabinets, etc.) due to the cluster of manufacturers between Medicine Hat and Lethbridge.

Market

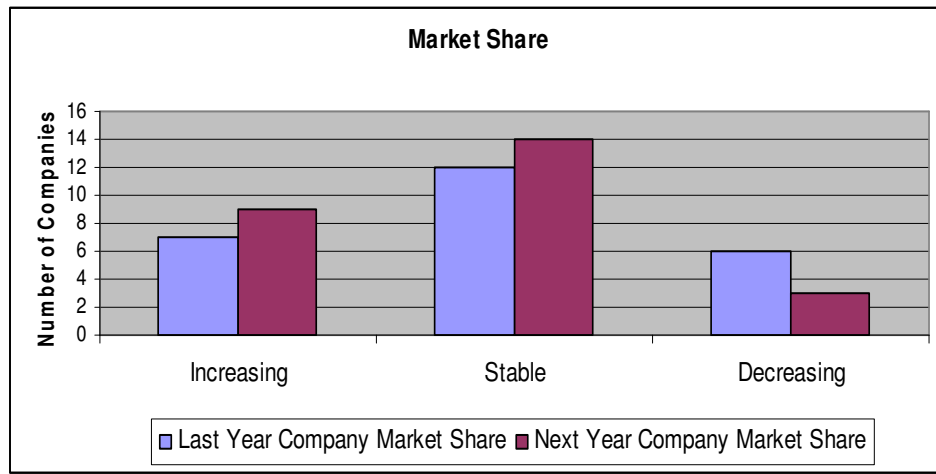
16. Most companies' primary market is Southeast Alberta, with a few spanning to the rest of the Province and the country. One company's primary market is international.



17. This last year, most companies' sales have been decreasing, but many of these companies expect their sales to stabilize this next year.



18. Last year, most companies' market share was stable with an equal but smaller number of companies experiencing increases and decreases. For the next year, many of the companies that experienced a decrease in market share are expecting to stabilize.



19. Most companies identified key competitors when asked and many of the competitors mentioned are located right in the region. In terms of differentiating factors, size (including head office location outside of the region), quality (in terms of service and employees) and level and diversification of services were most often stated.

20. Just over half (55%) of the companies felt that the costs of operating in the region were competitive. Lower overhead, cost of space, cost of living and labour costs were cited as being favourable. About 41 percent of the companies felt that the advantage has been lost due to higher property taxes (especially in the Brier Industrial Park area), utility costs, insurance costs and transportation costs (a few companies that do business internationally felt that location was a disadvantage). One company representative did not see an advantage or a disadvantage to operating in the region and felt costs were similar to other locations.

21. Most company representatives recognized the importance of socializing and networking among peers, contractors and customers as a critical way of getting information (word of mouth) about the industry. In terms of formal means of getting information, there was no clear trend with trusted or regular information channels. Larger businesses with head offices located elsewhere or that had many branch offices rely on in-house central information gathering services. The following were mentioned as sources of information:

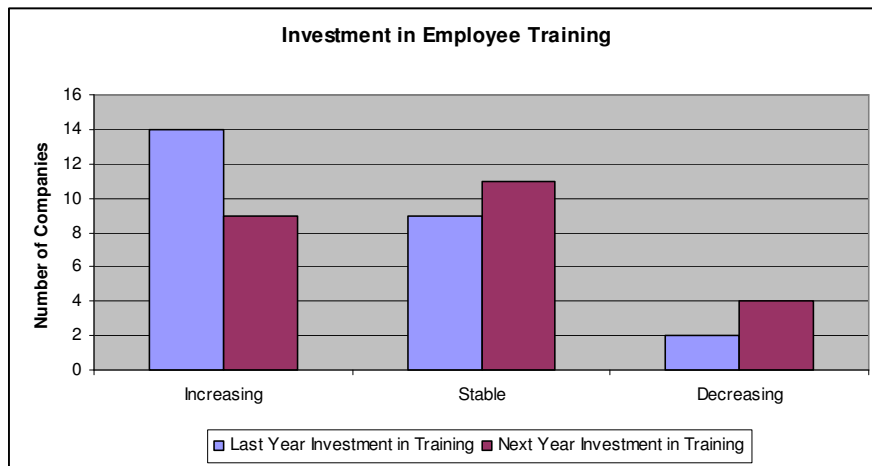
- Nickels.com or Nickels Daily Bulletin (5 interviewees)
- PSAC (3 interviewees)
- June Warren Publishing (2 interviewees)
- Alberta Land Surveyors Association
- J.D. Power
- Medicine Hat Construction Association
- Alberta Construction Association
- Medicine Hat Oilman's Association
- Association of Petroleum Producing Pipeline
- National Petroleum Refinery Association
- Alberta Motor Transportation Association
- Alberta Safety Construction Association

- International Coil Tubing Association
 - PetroActive
 - Global Oil Week
 - Oilfield Weekly
 - Oil and Gas Enquirer
 - Canadian Welding Bureau
 - Alberta Boiler Safety
 - Alberta Venture
 - Masonry Association
 - National Brick Research Centre, Clay Brick Association of Canada & Brick Industry of America
 - Occupational Health and Safety Bulletins
 - C CORE
 - Association of Modular and Manufacturing Homes of Alberta
 - Maclean's News Magazine
 - Manufacturer's Association of Relocatable Structures
22. Nearly 60 percent of the businesses realize the ebbs and flows of seasonality in their business. Some of the businesses that did not experience seasonality still saw a slow down due to "Spring Break-Up" when work is difficult due to physical conditions. These businesses just accepted "Spring Break-Up" as part of business and used the time to conduct maintenance and training.
23. Over half of the businesses had times of the year where they realized excess capacity. However, only four businesses were interested in having their excess space utilized:
- CanCarb has excess land that may be of interest to another company, however some of it may be used by CanCarb to explore solar opportunities and some of it may not be desirable to others.
 - Dynamic Industrial Solutions has a 5,000 sq foot building in RedCliff that it is interested in leasing out.
 - FormTech Machining has 22,000 sq. feet available in the Brier Industrial Park that it is interested in leasing.
 - Hranco Industries has vacant land and building space that is it interested in leasing.
24. Very few businesses had ideas for what could be located utilizing excess capacity in the region. Moduline specifically stated that it could benefit from truss buildings, cabinet buildings, and welding. Given that there is a small cluster of manufactured home builders between Lethbridge and Medicine Hat, this may be well worth pursuing.

Workforce

25. Twenty-six companies rated the **availability of skilled workers** in the area within the next year as an average of 4.73 out of 7, with 7 signifying high availability. These same companies gave the same average rating for the **quality of workforce** in the next year. Therefore, both availability and quality of workforce is being rated as above average.
26. When asked about their ability to **retain skilled workforce** in the next year, twenty-five companies indicated an above average ability. That is, the companies' ratings averaged at 6.14 out of 7, signifying great confidence in those that are employed within the companies.

27. Over 80 percent of the twenty-seven companies responding felt that applicants/employees at their business have the skills necessary for the job offered currently and in the future.
28. Almost 93 percent of the companies are not experiencing recruitment problems with any employee positions. Those that are experiencing problems are in the areas of land surveying, mechanical engineering, welding, carpentry, dry walling, electrical, plumbing and life skills. These were only cited once and therefore are not indicative of a “trend” in the industry.
29. Only five companies or 18.5 percent of the companies have unfilled positions currently.
30. Over 81 percent of the companies do not anticipate any significant changes in the make-up of their workforce. Many indicated that all the changes had already taken place and they are in a phase of stability.
31. When companies did experience recruitment problems, nearly 92 percent felt that the primary recruitment problems were limited to the community. Nearly as many (87.5 percent) also felt that the primary recruitment problems were limited to the industry.
32. Most of those companies that were focused on investing in employee training last year are expecting to stabilize next year. Most companies next year are also expected to decrease their investment in employee training. A lot of the training over the next year will be focusing on safety. In fact, fifteen of the twenty-seven companies indicated that safety was a major priority. Some company representatives voiced an overall frustration with the increase in safety regulations and expectations from oil and gas companies that employees have a variety of safety certificates and that the services providers pay for them. Some noted that with the downturn in the economy, safety training was becoming a drain on the budget. Eight of the twenty-seven companies were focusing on new skills training, sometimes associated with diversification of service provision.



33. Nearly three-quarters of the companies visited do not use Colleges and Universities in southern Alberta for training. Those that do utilize the post-secondary institutions send employees to SAIT, Medicine Hat College and Lethbridge College.
34. Over 80 percent of the companies feel that local or regional programs are adequate to train workers to fulfill job requirements. Many of the companies utilize area safety training companies.

35. Over 81 percent of the companies are aware that Colleges and Universities customize and offer in-house specialized group training. Only 14 percent of the companies are interested in receiving information about customized training possibilities.

Community Services

36. Interviewees were asked to rate a variety of community services on a scale of 1 to 7, with 1 being low and 7 being high in terms of satisfaction. The following ratings were received for key community services:

Community Service	Total Number of Respondents	High Rating	Average Rating	Low Rating
Police Protection	25	7	5.5	1
Fire Protection	24	7	5.90	4
Emergency Services	24	7	5.65	1
Health Care Services	25	7	4.34	1.5
Child Care Services	18	7	5.11	3
Schools K-12	21	7	5.67	3
Medicine Hat College	22	7	5.77	5
Universities or other colleges in the province	11	7	5.86	5
Public Transportation	12	6	4.54	3
Streets and Roads	25	6	3.74	1
Highways	25	7	4.84	1
Airline Service	19	7	3.61	1
Air Cargo	7	7	3.71	1
Trucking/Freight Services	25	7	5.44	3

In the cases of those services where all twenty-seven company representatives did not respond, it was a matter of lack of knowledge about the service that prevented representatives from being able to rate. For example, only seven company representatives had experience with air cargo and therefore they were the only ones to rate this service.

The high and low ratings are shown in the chart in order to show the “spread”. The difference between the highest and lowest rating shows the variance in opinions and should be considered in relation to the average rating. For example:

Community Service	Total Number of Respondents	High Rating	Average Rating	Low Rating
Police Protection	25	7	5.5	1
Medicine Hat College	22	7	5.77	5

While both community services had a similar average, there were clearly more people with above average satisfaction levels with Medicine Hat College than Police Protection. The twenty-two respondents who rated Medicine Hat College were all satisfied at above average levels as indicated by the lowest rating of 5, which is still well above average. However, some respondents were not satisfied with Police Protection as is evident by at least one respondent rating it the lowest rating of 1.

Overall, none of the community services rated below average (when calculated over all respondent ratings). The greatest degree of satisfaction was with Fire Protection, Education (at all levels), Emergency Services and Police Protection.

Additional Supports

The final component of the visitation was aimed at soliciting feedback from the company representatives on the region, doing business in it and how the EDA of Southeast Alberta could assist them. The questions and responses (edited and summarized) are below:

37. What is the most positive aspect of being located here?

- Small town feel, lots of amenities, infrastructure, services. (6 interviewees)
- Sunshine, lifestyle, family. (5 interviewees)
- People in the region are great, there is a stable workforce. (4 interviewees)
- Strategic location - work is in the region and in Saskatchewan. (3 interviewees)
- Nice area. (2 interviewees)
- Close enough to Calgary
- Recreational facilities.
- Anything that is not in the area is easy to get to the area.
- Highway.
- We can keep our overhead down.

38. What do you dislike the most about the community or doing business here?

- We are remote and isolated from Calgary and Edmonton (distance from markets) and therefore we are forgotten for health care and suppliers are located away from us. (4 interviewees)
- The community is too small. Everybody knows everybody else's business. People think they are better than they are. (4 interviewees)
- Restricted in amount of work we do; not a lot of opportunities. (3 interviewees)
- Poorly run planning department at the city. (2 interviewees)
- City environment is not conducive to retaining businesses; a lot of city contracts go outside of region. City Hall is terrible to deal with and not helping to keep business in town. (2 interviewees)
- Corporate offices are located in Calgary.
- On a personal level, there is a lack of choices. Big cities have more available.
- Overall poor attitude towards safety.
- Very competitive environment.
- It is expensive to shop here.
- We need a nice lake.
- City council should stay in politics and not get involved in business.
- No market for modular housing in the area; people have a poor perception of the manufactured homes.

39. Have any city/county regulations, laws or procedures made it more difficult for you to do business here?

Nearly three-quarters of the companies (72%) did not cite any city/county regulations, laws or procedures that made it difficult for them to do business in the region. Those that did find difficulties cited:

- Property taxes are terrible. (3 interviewees)
- City's planning commission erects many barriers for businesses. (2 interviewees)

- Utilities are being poorly run. (2 interviewees)
- Utility right of way corridors have too many caveats.
- Curtail the power of larger oil and gas companies. They can refuse to drill and that impacts us.
- Lack of housing for employees is an issue.

40. Is there anything the community, Province or Federal Government might be able to do to help your company?

Half of the company representatives responded to this question:

- Royalty framework is terrible; Kick Stelmach out. (4 interviewees)
- Increase infrastructure spending. (2 interviewees)
- Increase price of oil and gas. (2 interviewees)
- Municipal government can make positive decisions regarding power rates and property taxes.
- Province needs to do more work on utility corridors.
- Provide a rebate for companies that invest in safety.
- Quality of people is lacking in the workforce and service in the community at businesses is terrible.
- Re-visit the HIRF fire code that was introduced.
- Bow Island roads need to be better.

41. What is one thing that can be done to ensure sustainability in your business?

Company representatives suggested:

- Oil and Gas prices need to go up. (3 interviewees)
- Get money flowing.
- More enforcement of Environment Resources Conservation Board (ERCB) policies.
- Create some incentives:
 - To attract more established workforce to come to Southern Alberta.
 - To companies who provide safety training for their employees.
- Increase education pertaining to the specific industry:
 - Help train the end-users of our product (masonry).
 - Help people become educated about our industry (modular homes).
- Find a way to attract small and medium sized businesses to the area to provide access to customers and workforce.
- We need to be seen as a first choice of employment and we need to employ Canadians rather than immigrants first.
- We can only ship gas if drilling continues.
- Keep taxes low.
- Economy needs to pick up.

42. How can the Economic Development Alliance of Southeast Alberta assist you?

- Provide some help with banking industry and get cash flowing. (2 interviewees)
- Send out funding information and incentives on various aspects (marketing, training, operations). (2 interviewees).
- Attract small and medium sized manufacturing to the area and create a cluster which will attract quality labour force.
- Work on harmonizing trucking regulations between provinces so that it is easier when transporting and moving between provinces.

- Many of us have excess space for lease. Get the word out to site selectors and help us get these places filled.
- Continue to work with the airport on transportation issues and continue to work on border crossing issues for trucking and freight.
- Look into the issue of high property taxes; City Hall is terrible to deal with (planning, contracts jobs outside of the region, taxes and utilities are high).
- Need to develop a business directory that doesn't just have head office (often outside of the region) addresses and contact information, but the local ones.
- Create change in the city so investors are not frustrated by city planning department,
- Develop a newsletter aimed at businesses in the region informing them of what is happening, what the new developments are and what incentives and funding is available.
- Provide information on opportunities available in Havre.
- Send information on developments pertaining to the Wild Horse Border Crossing.
- Oil activity is leaving the area and going to Saskatchewan and Northern BC. We need better government.
- Get more industry people involved in EDA.
- Have a conference or panel discussion on these issues that were asked about during the visitation and invite businesses so that we can network and learn from each other and discuss these issues.
- We need exposure in Calgary where decisions are made ... major projects are decided in Calgary and if they don't know about us, then the work goes elsewhere.
- Send us intelligence on what Calgary head offices want. What are the decision makers interested in? We need to be more in touch with Calgary.
- Moduline would like to be involved with EDA